



TRUST BUSINESS STRUCTURE.

A trust is a relationship where a trustee (an individual or a company) carries on business for the benefit of other people (the beneficiaries). For instance, a trustee may carry on a business for the benefit of a particular family and distribute the yearly profit to them.

A trust is not a separate legal entity. A trust may be discretionary (i.e. the trustee decides how profit will be distributed among beneficiaries) or have fixed interests (i.e. it will benefit certain people in predetermined proportions). Commonly, the trustee is a company (a corporate trustee); often this business structure is more tax effective (Australian Securities and Investments Commission, 2020)

ADVANTAGES OF A TRUST

- A trust provides asset protection and limits liability in relation to the business.
- Trusts separate the control of an asset from the owner of the asset and so may be useful for protecting the income or assets of a young person or a family unit.
- Trusts are very flexible for tax purposes. A discretionary trust provides flexibility in the distribution of income and capital gains among beneficiaries.
- Beneficiaries of a trust are generally not liable for the trust debts, unlike sole traders or partnerships.
- Beneficiaries of a trust pay tax on income they receive from a trust at their own marginal rates.

(Australian Taxation Office, 2016)

DISADVANTAGES OF A TRUST

- Establishing a trust costs significantly more than establishing sole traders and partnerships.
- A trust is a complex legal structure, which must be set up by a solicitor or accountant.
- The trustee has a strict obligation to hold and manage the property for the exclusive benefit of the beneficiaries.
- Operation of the business is limited to the conditions outlined in the trust deed.

(Australian Taxation Office, 2016)

- As with companies, there are extensive regulations that trusts must comply with.
- Losses derived in a trust are not distributable and cannot be offset by beneficiaries against other income they may have.
- Unlike a company, a trust cannot retain profits for expansion without being subject to penalty rates of tax (Australian Taxation Office, 2016).

OTHER BUSINESS STRUCTURE:



ALSO THINGS TO CONSIDER..

- Contact the Australian Taxation Office (ATO) on 13 72 26 for more information on choosing the right legal structure.
- Learn more about tax basics for small business.
- Consult your legal and tax advisers for more personalised guidance.

The above information has been taken from the Australian Securities and Investments Commission website (ASIC). For more information please visit the ASIC: <https://asic.gov.au/>

References:

Australian Government. (2020, June 24). Business structures. Retrieved October 2020, from Business: <https://www.business.gov.au/planning/business-structures-and-types/business-structures/>

Australian Securities & Investments Commission. (2020, January 15). Setting up a business structure. Retrieved October 2020, from Australian Securities and Investments Commission (ASIC):

<https://asic.gov.au/for-business/small-business/starting-a-small-business/setting-up-a-business-structure/>

Australian Taxation Office. (2016, November 10). Trust. Retrieved October 2020, from Australian Taxation Office (ATO): <https://www.ato.gov.au/Business/Starting-your-own-business/Before-you-get-started/Choosing-your-business-structure/Trust/>